Alphinity Australian Share

Quarterly Investment Option Update

31 March 2020

Aim and Strategy

The strategy aims to outperform its benchmark over rolling five-year periods. The strategy is managed by Alphinity who seeks to build a portfolio of Australian shares listed on the Australian Securities Exchange that is well diversified across different industries and sectors and aims to meet the strategy's investment objectives in a risk-controlled manner. The strategy is intended for investors who are happy to invest for at least five years, are seeking high levels of return and are comfortable with high volatility, including the possibility of periods of negative returns.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Aust. Shares
Suggested Investment timeframe	At least 5 years
Relative risk rating	6 / High
Investment style	Growth

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	97.63%
Cash	0%	2.37%

Sector Allocation	%
Consumer Discretionary	3.18
Consumer Staples	4.80
Energy	1.97
Financials ex Property	28.28
Healthcare	16.08
Industrials	7.86
Information technology	1.24
Materials	17.29
Property Trusts	4.87
Telecommunication Services	3.18
Utilities	3.17

Top Holdings	%
CSL Limited	12.56
Commonwealth Bank of Australia	8.25
BHP Group Limited	8.15
Woolworths Group Ltd	4.48
National Australia Bank Limited	4.27
Macquarie Group Ltd Group Ltd	3.91
Wesfarmers Limited	3.74
Telstra Corporation Limited	3.18
APA Group	3.17
Transurban Group Stapled	3.17

Portfolio Summary

- The Fund outperformed the market over the March quarter, returned -21.12% before fees.
- The outperformance is little consolation considering the considerable negative absolute return. Crucial time for mitigating damage rather than creating value.
- The manager's focus on owning companies with strong balance sheets has so far held the Fund in good stead, and the manager expects they will continue to do so.
- The manager has so far taken advantage of some large share price falls in some companies already owned in the Fund and in a select few, new positions.
- Just as economic downturns often turn out to be more significant than initially anticipated, the same is true for the recovery, with companies that are able to demonstrate positive earnings revisions and relative outperformance continuing to do so for an extended period of time. This allows the manager to approach the eventual recovery in a disciplined manner and not rush to conclusions in what remains a highly uncertain economic and market environment.

Investment Option Commentary

The Fund performed well in the December quarter and for the whole year. The companies which contributed most to performance came from a wide range of industries. They included blood fractionator and vaccine maker CSL, flag-carrying airline Qantas, iron ore producer Fortescue Metals, global asset manager Macquarie Group, and gas producer Santos. Being underweight major bank Westpac, which was the subject of money laundering allegations during the quarter, also added to performance. The only positions that detracted noticeably were Treasury Wine Estates, whose CEO announced his retirement, and being underweight Rio Tinto.

Market Commentary

The Fund outperformed the market over the March quarter, although the manager appreciates that this is little consolation considering the absolute return was still very negative. In times like these, “success” is sometimes more about mitigating damage than creating value. The positions which contributed most to performance over the quarter were blood products and vaccine maker CSL, gas pipeline operator APA, breathing apparatus maker Fisher & Paykel Health and iron ore miner Fortescue Metals; not owning shopping centre owner Scentre Group was also positive. Hurting returns somewhat were our positions in energy producer Santos, wine producer Treasury Wine Estates, global asset manager Macquarie Group and airline Qantas. Not owning supermarket operator Coles also detracted.

Outlook

A lot has changed since the last report but some important matters have not. A month ago the manager said that overall corporate earnings growth in Australia would likely go negative; a few weeks on that is now fact, and the earnings decline will be much more significant than they were expecting given the breadth of government restrictions that have been put in place.

The Manager also said that this would likely be predominantly an earnings recession rather than a financial crisis. While the distinction between the two may seem like a too fine a point to make, given current circumstances, it has, in their view, significant implications for both the impact of the current situation and for the eventual recovery. Even though corporate debt markets were at one point looking shaky, debt deals are now being done and most companies are still able to use this channel to fund themselves. Undrawn credit facilities are also not being cancelled by the Banks; this was something that made matters worse during the Global Financial Crisis in 2008-9. Equity raisings, as they are currently witnessing, will still be part of overall funding requirements as many companies face an annihilation of their earnings for an unknown period of time. This will present both challenges and opportunities for equity investors in the months ahead but it is positive that equity is not the only funding avenue open to corporates. The Manager was encouraged by the extent of the monetary and fiscal stimulus that was announced by the Government and the Reserve Bank a month ago. While the scale of the earnings downturn, and most likely also its duration, has worsened significantly since then, the stimulus has also been significantly increased. With the market’s current earnings forecasts unreliable and still too high, it is reassuring to see that several longer-term valuation metrics such as Price to Book Value and Price/Earnings multiples (using 10 year average earnings rather than forecast earnings) are starting to look interesting.
While the human and economic impacts of the Coronavirus have deepened, there are good reasons to believe that markets will recover from this crisis as well. Recent indications of a peak in key Covid-19 indicators in several countries are encouraging, although the Manager doesn’t pretend to know whether the subsequent sharp bounce in equity markets in late March/early April can be sustained or will turn out to be just that, a bounce. However, equity markets remain, as was shown in the downturn, ahead of the curve and will likely recover well in advance of the general economy this time too.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0345AU
AMP Flexible Super - Retirement account	AMP1617AU
AMP Flexible Super - Super account	AMP1608AU
CustomSuper	AMP0345AU
Flexible Lifetime - Allocated Pension	AMP0629AU
Flexible Lifetime - Term Pension	AMP0936AU
Flexible Lifetime Investment	AMP0834AU
Flexible Lifetime Investment (Series 2)	AMP1639AU
SignatureSuper	AMP0805AU
SignatureSuper Allocated Pension	AMP1164AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

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